MANAGEMENT ISSUES REGARDING THE INVENTORY OF THE COMPANY

Corina Miculescu

Abstract: *Following the conduct of business, inside and outside the enterprise are born a lot of inflows and outflows material and financial resources. Among these, money (cash) plays an important role, especially in terms of organization and ensuring linkages between various activities related to sales and purchases, training, the increase of capital and investment, expenditures, etc. Thus the company needs capital (cash) to finance: its investment costs, operating expenses, treasury throughout its activity (operating). Thus the treasury is a key element of managing on a short term. This action is a tool to achieve strategic objectives. Treasury can either be used to purchase essential equipment for internal growth or to purchase securities to increase foreign participation. Treasury is therefore the pledge for the company's flexibility.*
Keywords: *treasury, cash flow, forecast, budget*

1. Introduction

Any company is situated in an economic context. Its aim is to create material or intellectual wealth, in order to meet the current or future needs of a market and of consumers.

The company is a system which, in its turn is characterized by an economic, social and financial structure. Inside and outside the enterprise there are born a lot of **flows**. Among them cash plays an important role. These flows are related to capital formation and its compensation by increasing the capital or by increasing the number of shareholders, the external financing, either by listing the companies.

The company needs capital to finance:

- Its investment costs;
- Operating costs and **treasury** throughout its activity (operating).

The operating activities of a company generate a network of flows such as:

- real flows of goods, materials, services;
- monetary flows.

At monetary flows the link between inputs and outputs is provided by the treasury.

Treasury represents the image of cash availabilities arising from the current trend of receipts and payments, availabilities which must continually cope with maturities. Therefore, **treasury** represents a series of specialized activities in the organization and the management of flows of input and output of currency, liquidity management and short-term credits. Within a business it can be organized in one compartment (service) or in a office from the financial department, which has important links with the financial and monetary market. It is concerned with ensuring the liquidity of the company, effectively placing monetary surpluses, the evaluation of sources of financing, developing and tracking budgets and treasury plans.

As a result, the treasury is an essential element of the short-term management. This action is a tool to achieve strategic objectives. Treasury can either be used to purchase essential equipment for internal growth or to purchase securities to increase foreign participation. Treasury is therefore the pledge for the company's flexibility.

2. Overview of the inventory management

The company profitability, volume and evolution of the need for working capital and the working capital determines the margin of maneuver and the role of the treasurer, which has to place the treasury surpluses and fund the treasury deficits. These two situations can be succeed or to be mutually exclusive (for example a company whose operations emit significant and permanent treasury surpluses).

The fundamental objectives of treasury are:

- ✓ forecasting the evolution of debit and credit balances of the treasury accounts of the company;
- ✓ reducing to a minimum the level of liquidity that the company does not place and generates losses of opportunity;
- ✓ ensuring the best placement for treasury surpluses;
- ✓ Financing the treasury deficit at the lowest possible cost, selecting quality loans adapted to the needs of the company. Treasury management effectiveness derives obviously from the quality of the forecasts prepared by the treasury.

Tracking and forecasting the treasury requires an analysis of receipts and payments on the entire business. This analysis is done in the preparation of budgets and control flows. Tracking and controlling cash flows are necessary for corrective measures designed to meet present and future imbalances. Thus significant, observed or projected, net outflows of funds make to appear the danger of a shortage of treasury and lead to the search for transitional funding sources, in order to maintain a financial balance on a short term. Conversely, if net receipts it is found or anticipated, which can leave to provide excess liquidity, investments will be carried out.

3. The necessity and purpose of treasury forecasting

In providing a short-term financial balance treasury forecasting has an important role that reflects the synthesis of all financial flows - receipts and payments - for a period determined by the plan developed with the tools represented in special treasury budget.

The purpose of treasury and cash management forecast can be sketched as follows:

- ✓ providing in critical payment periods sufficient cash or assets easily converted into cash;
- ✓ meeting payment obligations under the contract and those under other regulations (taxes, dividends, interest);
- ✓ rational and appropriate use of capital;
- ✓ ensuring sufficient time until the maturity payments so that the company can acquire funding and resources negotiated in favorable terms;
- ✓ Eventual investment of surplus cash on shorter or longer periods while ensuring the use of these funds and cash.

Forecasting inflows refer to estimating**:**

- ▪ Operating cash flow required;
- ▪ Flows from company loans;
- ▪ Flow generated by the company's own capital growth.

Operating flows are dependent on the incomes of the business. Therefore forecasting the revenues represents an essential element for the forecast analysis. They are a product of commercial office and financial behavior. The internal analysis is complemented by external analysis in order to develop forecasts of the evolution of the price level integration on the market share. These internal and external studies are crucial in forecasting revenues as flow inputs. **Input flow projections** are based on the distribution and nature of own incomes and revenues (accounting) from equity and loans. Information on income is provided by investment and commercial budgets. Raising capital is transmitted to the CEO. In addition to this information we find those related to donations and transfers of assets.

Output flow projections are the result**:**

- Long-term decisions: repayment of loans, commitments and regulations on property purchases;
- Operational decisions on regulations, agreements with suppliers, paying for trading expenses, salaries etc.

Output flows consist of: **operating expenses, investment expenses, dividends paid, taxes on profits.**

Comparing the flow of outputs with inputs at certain periods (month, quarter, semester, year) we get either to surpluses or deficits flows. The treasurer may influence certain flows to achieve a certain balance in the following areas:

- ✓ Accelerating the collection of receivables;
- ✓ Slowing down the cash payments as much as possible;
- ✓ Using floating rate, as difference between bank accounts.

If the inputs flow is lower than the outputs of the treasury, the treasurer may use a bank support namely:

- if the company wants to use a line of credit, treasury budget allows upper limit;
- whether the company has used the bank loan, allow the determination of the level of budget, time and duration of the loan required. If a higher input flow stream exits the treasury operates placements during surpluses.

The treasurer always has means to optimize the treasury: existing credit arrangements; importance of unused credit lines, short-term investment opportunity. It is important to know the exact position of the company bank accounts and improve short-term forecasts.

4. Treasury budget - basic tool treasury management

The treasury budget *reflects the structure of cash flows in a particular period, representing a forecast of cash inflows and outflows, and their role. The main source of cash inflows* is the commercial operations, meaning sales of goods or merchandise, and other significant sources such as: issuance of shares, the recovery of long-term loans, the decommissioning of equipment etc. **Payments** are diversified salaries, suppliers, taxes, dividends, etc. In the budget, cash receipts and payments are recorded as affecting the business and which generates a need for cash. Purchases, sales and all operating flows must be provided at the time of payment or collection.

In the event that the treasury budget shows a deficit, the treasurer will have to cover it with short-term loans. If, on the contrary, there is a surplus, the treasurer will decide blocking the account or place it for new gains.

The treasury variation is influenced by the variation in the global net working capital (table nr. 1.1.):

Table nr. 1.1. Treasury variations

Specifications	N Exercise			Ex.N-1
0	1	2	3=2-1	4
Operating variations				
. Operating assets variations: - Stocks in progress - Advance payments and installments paid on orders - Receivables from customers, accounts and other similar operating receivables - operating liabilities variations - Advance payments and payments on account for orders being accepted - Payables, related accounts (assimilated) in other operating liabilities				
TOTAL	x	x		
A. Net variations of the operations			+-x	+-x
Net variations outisde the operations Other debtors variations Other creditor variations				
TOTAL	x	x		
B. Net variations outisde the operations			+-x	+-x
TOTAL A+B				
The need for working capital or net release of working capital during the year			+x	+x
Treasury variation Availability variations Current bank competition and bank creditor balance variation				
TOTAL				
C. Treasury net variation			+-x	+-x
Net working capital global variations			+-x	+-x

The treasury variation can be expressed taking into account the elements that give dynamic flows. Example (table nr.1.2):

Table nr. 1.2. Treasury variation according to operational flows

	n	n-1
Operating operations		
- the net result of the operation - elimination of expenses and incomes that do not fall in the treasury or operation flow - depreciation and provisions - changes in stocks transfer of expenses allocated expenditure account pluses, minuses of assignment - the treasury incidence gap variations on operating operations		
OPERATING CASH FLOW		
INVESTMENT OPERATIONS		
Payments for the acquisition of intangible and tangible assets Receipts arising from the disposal of tangible and intangible assets Net treasury affected by the acquisitions and disposals of branches		
TREASURY FLOW FROM INVESTMENTS		
FINANCING OPERATIONS		
Amounts received by shareholders as a result of capital growth Dividends paid to parent company shareholders Receipts from new loans Repayments of loans Advances received from third parties		
TREASURY FLOW ARISING FROM FINANCING OPERATIONS		
Exchange rate variation		
TREASURY VARIATION		
Beginning treasury		
End treasury		

Net treasury comes from the difference between the working fund capital and working capital requirements. The net treasury may be positive or negative. It is important in the development of the ability to pay for the sizing of the company. This prediction is based on the treasury plan (treasury budget) presented in Table no.1.3.

Table nr.1.3. Treasury plan or treasury forecast

Month Specifications	1	2	3	4	5	6	7	8	9	10	11	12
A. TREASURY AT LAST MONTH END												
B. MONTHLY PAYMENTS												
1. Operating - aquisition - staff - … 2. Investments -… 3. Diverse - repayment of loans at term												
TOTAL B												
C. MONTHLY INCOMES												
Revenues Other resources - term loans - capital growth - contributions -…												
TOTAL C												
D. MONTHLY TREASURY VARIATION (C-B)												
E. END OF THE MONTH TREASURY (A+D)												

5. Conclusions

Treasury *represents the image of cash availabilities arising from the current trend of receipts and payments, availabilities which must continually cope with maturities*. The **fundamental objectives** of treasury are:

a. provision and ensuring the different input and output flows to / from the treasury;
b. providing liquidity to the company;
c. evaluation of different types of investments and the investment of excess treasury;
d. assessing, evaluating different sources of short term financing;
e. Budgeting and planning the treasury.

The company needs liquidity for its transactions, to pay maturing daily purchases. The size depends on the level of income receipts, supplier credits policy, credit policy of the company. The treasury inflows and outflows are difficult to predict with great accuracy. The organization preserves receipts as a precaution to face unpredictable funding requests. The level of receipts depends on the ease and speed with which the company can repay the loan granted by the bank. Prudence and caution receipts are generally held as short-term marketable securities.

The treasurer must determine a minimum level of revenue that could avoid: the default risk, the risk of insufficient receipts that lead to the postponement of payments and delays for additional settlements.

Bibliography

Bregg, S., M., (2010), *Treasury Management:The Practitioner's Guide,*Wiley Corporate F&A;

Miculescu C., (2010), *Finance,* Eurostampa, Timişoara;

Pațac F., Miculescu C., (2007), *Finance,* Eurostampa, Timişoara;

Pirtea, M., Cristea, H., Nicolescu, C., Botoc, C., (2010), *Managementul financiar al companiei*, Editura Mirton, Timişoara;

Stancu, I., (2007), *Finante - Editia a IV-a*, Ed. Economică, Bucureşti;

Vintilă, G., (2005), *Gestiunea financiară a întreprinderii*, Editura Didactică şi Pedagogică, Bucureşti.

Note on the author

CORINA MICULESCU is lecturer at the Faculty of Management in Tourism and Commerce Timişoara, „Dimitrie Cantemir" Christian University. She holds a PhD. In Managerial Accounting with the thesis *Managerial Accounting in Textile industry.* She isc o-author (with Patac Filip) of *Finanțe*, published at Eurostampa, Timişoara, 2007, and author of numerous articles. She is a member of Danube Adria Association for Automation & Manufacturing - DAAAM International Vienna.